



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

February 12, 2009

President John Paull called the regular meeting to order at 8:30 am Thursday, February 12, 2009. Roll call was taken with all members of the Board being present. Board members and staff present were:

John Paull, President
John Nielsen, Vice President
Loren Bough, Member
Darcy Halpin, Member (via telephone)
Dianna Porter, Member
Terry Smith, Member
Timm Twardoski, Member
Roxanne Minnehan, Executive Director
Scott Miller, Legal Counsel
Ursula Hatfield, Executive Assistant

OPEN MEETING

Linda Ulrich, Great West Retirement Services; Ed Cleary, Scott Moore, and Chad Nicholson members of the Montana State Firefighter's Association; Tom Schneider, MPEA; Russell Wrigg, AMRPE; Don Kinman and Linda Zander, AFSCME; Terry Teichrow, former PERB President and Kim Flatow, Member Services Bureau Chief; Diann Levandowski, Assistant Fiscal Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; and Kathy Samson, DC Education Services Bureau Chief, joined the meeting.

MINUTES OF OPEN MEETING

The minutes of the open meeting of January 8, 2008 were presented.

Motion: Mr. Terry Smith moved to approve the minutes of the January 8, 2008 PERB Regular Open Meeting.

Second: Ms. Dianna Porter

No public comment.

Vote: 4/0, Ms. Halpin and Mr. Twardoski abstained and Mr. Bough was absent.

The minutes of the Special Board meeting on January 26, 2009 were presented.

Motion: Mr. John Nielsen moved to approve the minutes of the January 26, 2009 Special PERB Meeting.

Second: Mr. Terry Smith

No public comment.

Vote: 5/0, Mr. Twardoski abstained and Mr. Bough was absent.

Presentation/Recognition of Jay Klawon's service on the Board.

Mr. Klawon was unable to attend this month; his service will be recognized at the March PERB meeting.

Public Comment on any subject of interest not on the Board agenda.

Mr. Wrigg, Association of Montana Retired Public Employees (AMRPE), addressed the Board with two issues. 1.) Mr. Wrigg introduced himself and the duties of AMRPE to the new Board members. AMRPE has 2000 active dues paying members. They hold monthly board meetings the third Tuesday of the month. The organization was founded in 1983. They are an advocate for retired public employees and the protection of trust fund moneys. 2.) Mr. Wrigg informed the Board that AMRPE has discussed the deduction of AFSCME dues. They adamantly oppose this process, for they do not feel that this is the best use of trust fund money. The \$94,000 set-up fee and the \$4,000 annual operating costs are excessive for the small number of people it would benefit.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

President Paull thanked Mr. Ray Peck for his service on the Public Employees Retirement Board.

New Board Member Appointee – Timm Twardoski

Governor Schweitzer appointed Mr. Twardoski to the PERB. Mr. Twardoski is the Executive Director for AFSCME Montana Council 9 in Helena, MT. He has been with AFSCME 10 years, prior to that he was a manager in the airline industry.

Actuary Request for Proposal (RFP) – Scott Miller, Barbara Quinn

Actuarial Services do not require the issuance of an RFP; however, the Board decided to issue an RFP when we implemented the PERS-DCRP. The current contract under that RFP has expired. Staff is working with Teachers' Retirement System (TRS), Denise Pizzini, to issue a joint RFP, which may or may not result in the same firms being awarded the bids. We would like to get the proposals out in March to ensure that we have an actuary firm in place when it is time to value the systems for FY 2009. Staff will present the proposals to the Board in May. The Board elected to have a committee to assist staff in determining the scoring grid and the review and scoring of proposals. President Paull will chair the committee with Darcy Halpin and Dianna Porter as members.

Informal Consideration – Request for acceptance of Late Annual Certificates, VFCA – Diann Levandowski

Under the Volunteer Firefighters' Compensation Act (VFCA), Annual Certificates are due by September 1 of each year following fiscal year end. The Annual Certificates certify the members listed were members for the entire fiscal year period (July 1 – June 30) and received a minimum of 30 hours of instruction during that fiscal year. The members then receive one year of service credit for retirement. The Board may accept late annual certificates if the support documentation accompanies the request.

Arlee VFD

Arlee Volunteer Fire Department requests Board consideration of its FY 2006 Annual Certificate, filed on June 29, 2007. Arlee has not filed a late certificate in the last 10 years.

Motion: Mr. Terry Smith moved to uphold staff recommendation granting one year of service credit for FY2005-2006 for nine members of the Arlee Volunteer Fire Department.

Second: Mr. Loren Bough

No public comment.

Vote: 7/0

Pendroy RFD

Pendroy Rural Fire Department requests Board consideration of its FY2007 Annual Certificate, filed on October 29, 2007. Pendroy has not filed a late certificate in the last 10 years.

Motion: Mr. Terry Smith moved to uphold staff recommendation granting one year of service credit for FY2006/2007 to the 10 members of Pendroy Rural Volunteer Fire Department.

Second: Ms. Dianna Porter

No public comment.

Vote: 7/0

Legislation Update – Committee Recommendations and Discussions – Roxanne Minnehan

HB12 the Working Retiree bill was tabled in the House State Administrative Committee on with a 9/8 vote. Mr. Miller has been working with Rep. Bean and Rep. Wilmer on an amendment to get this off the table. The amendment will allow local governments to wait until July 1, 2013 before reporting contributions on all working retirees. The State will start reporting on July 1, 2009 for all working retirees including the state portion of local government contributions. Mr. Miller was excused from the PERB meeting to attend the executive action meeting.

Rep. Bean made the motion to take HB 12 off the table, it passed 18/0. The amendment was discussed; it requires the state to pay all working retiree contributions and the state portion of the local government contribution starting July 1, 2009. It allows local governments to wait until July 1, 2013 to pay contributions for working retirees. It will be delayed on the House floor until a revised fiscal note is received.

HB109 the General Revisions Bill has passed its third reading on the House floor with a 66/32 vote. It has been transmitted to the Senate.

HB 170 the Qualifications Bill has passed its third reading on the House floor with a 76/23 vote. It has been transmitted to the Senate.

HB31 allows current PERS 911 dispatchers to elect coverage in SRS by October 1, 2009. This bill's vote to table failed 9/9 in the House State Administrative Committee. No further committee action has been taken.

HB32 increases the benefit factor in FURS from 2.5% to 3%. This bill was tabled at the sponsor's request, January 15, 2009.

HB33 includes overtime in the definition of annual compensation in FURS. This bill was tabled on January 23, 2009 in the House State Administrative Committee.

HB142 is proposed by the Governor's Office. It removes the sunset trigger for the increased employer contributions in PERS and SRS when the systems' UAL can be amortized over less than 25 years without the increased contributions. This bill was tabled on January 23, 2009 in the House State Administrative Committee.

HB266 eliminates member contribution requirements for DROP participants of MPORS. This bill was tabled on February 5, 2009 in the House State Administrative Committee.

HB315 increases the amount and slow phase out of retiree exclusion from income. Rep. Anders Blewett is the sponsor. This bill is being heard February 13, 2009.

HB393 provides a special contract for the City of Dillon's police fund to transfer to statewide retirement plan. Staff is working with Mr. Duke Gilbert, Dillon's attorney, to get a workable bill.

SB295 is a request by Senator Jim Keane to change the consideration/reconsideration process and place the process in statute. This bill was tabled in committee on February 9, 2009.

SB352 allows city or town authority to impose a levy to fund firefighters' retirement. This bill affects Firefighters' Relief Association and does not affect FURS.

SB372 and SB373 these bills revise firefighter laws. These are sponsored by Sen. Gary Perry. SB373's hearing was scheduled Thursday, February 12 before the Business, Labor and Economic Affairs Committee. These bills address eliminating the age 34 requirement. This could potentially increase disabilities. Disability benefits are half pay regardless of vesting or whether the injury is duty related or non-duty related. The Board has opposed this in the past.

Motion: Mr. Loren Bough moved to oppose SB372 and SB373, for it acts against Montana Law and the potentially dire actuarial impact upon the FURS system.

Second: Mr. John Nielsen

No public comment.

Vote: 7/0

SR2 Senate confirmation of certain governor's board appointees. The hearing is scheduled Monday, February 16, 2009.

LC1534 is the Sudan divestment act. A similar bill proposed in the 2007 Legislative Session. The Board of Investments requested PERB oppose this bill in 2007. This bill addresses any companies or agencies that have businesses in Sudan. This would be a difficult bill to enforce. PERB supports the best return for our investments. This bill would impede that goal.

Motion: Mr. John Paull moved to oppose LC1534.

Second: Mr. Terry Smith

No public comment.

Vote: 7/0

LC1877 adjusts the retirement dates for new PERS and TRS hires. Sen. Joe Balyeat is the sponsor of this bill. This bill would change the retirement age to 65. The bill currently doesn't tie years of service to retirement eligibility. TRS is opposing this bill, but helped with the drafting. The early retirement deduction factor would be calculated at 65 rather than 60. This has not been sent to the actuary for an impact statement. Staff has asked for an amendment to address whether or not the member needs to be vested.

Motion: Mr. Terry Smith moved to remain neutral on LC1877 until the actuarial report.

Second: Mr. John Nielsen

Mr. Wrigg stated that the 30 years of service requirement kept him working; a requirement of age 65, regardless of service would not have. The first 10 years goes by quickly. After that he was a third way there and retired at age 48.

Vote: 7/0

Governor Schweitzer's Legislative Communications Policy Letter

A letter was received from the Governor's office to PERB and MPERA staff explaining lobbying policy. A letter was sent in response to the Governor's Chief of Staff, Mr. Bruce Nelson, explaining our lobbying responsibilities as fiduciaries to the plans, its members and beneficiaries. A letter was received in response to our letter requesting a list of bills we have lobbied on in Legislative Sessions 2005, 2007 and 2009; identifying the Board's position and "a brief statement as to how the PERB's position and testimony was both: 1) consistent with and 2) required by it fiduciary responsibilities." Ms. Minnehan is suggesting a meeting with Mr. Nelson to discuss this matter. Mr. Miller counseled the Board to provide the information for the Governor. The Governor can request a report from executive branch agencies.

Motion: Mr. Loren Bough moved to send a letter to Mr. Bruce Nelson from the PERB, requesting a meeting.

Second: Mr. Terry Smith

No public comment.

Vote: 7/0

Schedule Board Meetings

The Board meeting dates for April, May and June need to be scheduled. The second Thursday would be April 9, May 14 and June 11.

Motion: Ms. Dianna Porter moved to approve next quarter Board meetings as follows:

Thursday, April 9, 2009

Thursday, May 14, 2009

Thursday, June 11, 2009

Second: Mr. John Nielsen

No public comment.

Vote: 7/0

Board Education – Fiduciary College Conference Report – Dianna Porter, John Paull

Ms. Porter and Mr. Paull attended Fiduciary College at Stanford Law School, January 6-7, 2009.

Ms. Porter and President Paull reported on some points made at the conference. Five categories of best practice principles: 1.) Transparency of a fund's rules, a fund should clearly define and make publicly available its rules. 2.) Fund leadership, the plan should have a governing body and executive staff, 3.) Key trustee attributes and core competencies, members should have a thorough understanding of the fund's obligations. 4.) Approach to addressing conflicts of interest and related disclosure policy, and 5.) Delegation of duties and allocation of responsibilities among relevant authorities.

The training pointed out several times that the Board must have a policy re: conflict of interest. Board members must avoid even the "appearance of conflict." An ethics policy was discussed as an important part of full filling a member's fiduciary responsibility. Rules of conduct, recusals (leaving the room) and disclosure requirements are an important part of an ethics policy. The Board should also have an annual evaluation on whether members have skills, a plan for acquiring skills and report publicly on how Board adheres to their policies. It is important to have a "clean" process and to follow it. Five initiatives that will affect the members as fiduciaries: 1.) Economy, stimulus package, 2.) Market reforms, 3.) Health care reform, 4.) Bailouts and 5.) Congress looking at government support to retirement security.

FY 2009 Budget Update – 2nd Quarter - Barbara Quinn

The first half of FY 2009, ended December 31, 2008. Ms. Quinn provided a status report of budget vs. expenses through December. Ms. Quinn briefly explained the budget worksheet the new Board members. The DB plans can spend 1.5% of benefits paid. The DCRP and 457 plans have fees that fund their expenses. The DB and DC education are funded by a portion of employer contributions. The salaries are paid through pay period ending December 19 and the payday of December 31. Insurance and bonds, and messenger services are paid upfront. Payroll services fees, Department of Administration personnel unit fees, and State Fund are paid quarterly. SABHRS operations cost, computer processing, and rent are paid monthly. All other items are paid as needed. Personal services are expended 38%, other services 35%, supplies and materials 10%, communications 33%, travel 24%, rent 49%, repairs and maintenance 4%, other expenses 36%, overall 37%. Some unexpected expenses are consulting and professional fees for DB and DC education, legal fees and court costs for DCRP and Deferred Compensation, audit fees, office supplies non-state, travel in-state car mileage, out-of-state conference travel and lodging. Under rent we also pay for parking spaces in the city garage which was originally not budgeted. All plans are currently expended between 36% and 45%. The DB expenses compared to the cap through September 30 are projected \$710,000 under cap.

Board DC Administrative Account Policy – Kathy Samson

Ms. Samson explained the first draft of the PERS 401(a) Defined Contribution Retirement Plan Administrative Fund. This policy will provide direction to staff, relative to the assessment, review and use of fees for members of the Defined Contribution Retirement Plan (DCRP). Board policies also provide a legacy for future Board members. This is the first step in disclosing how we assess fees to our DCRP members.

Verbal Update – AEGON Fee Increase – Kathy Samson

Last month the Board approved increasing our Stable Value Wrap provider fee from 8 basis points to 15 basis points. It is a fee increase of \$140,000 per year. All Stable Value Wrap providers have increased their fees. Two reasons for the increase of fees are: 1.) an increase of risk for the provider and 2.) the decrease of number of wrap providers. The yield for Stable Value plans are 3.6%.

Verbal Update – NAPPA Conference – Scott Miller

Mr. Miller attended the winter NAPPA conference, February 4-6 in Washington, D.C. Mr. Miller attended the benefits section meeting which was a presentation from The Hay Group actuaries. They discussed the actuary situation with public pension plans. The litigation report was informative; it also is helpful to hear about other litigation issues and to gain insight and advice from other pension litigators. The Pension Protection Act allows plans to provide in-service distributions to individuals that have achieved normal retirement age. The IRS determined that normal retirement age specific retirement age rather than years of service credit. The IRS postponed the requirement for public pension plans to comply with this until January 1, 2011.

Verbal Update – MPERA Staffing – Roxanne Minnehan

Paralegal, staff is working on the Job Profile and working with HR for classification.

Administrative Support, Member Services is a new position and is currently setting up interview questions.

DC Administrative Support, is currently on hold.

Verbal Update – Board of Investments (BOI) – John Paull

The BOI held a meeting February 10-11 in Helena. In September 2007, including Teacher Retirement System, retirement assets were \$8.4 billion, as of December 2008 assets were \$5.9 billion. The systems lost \$2.44 billion. The past year retirement systems lost 26.05%. Domestic Equity Pool down \$1.5 billion, market value as of year end \$2 billion. International Equity Pool last quarter 23%, 47.47% for the year, market value \$8.72 million. Short Term Investment Pool yield was 1.6%, last quarter returned 0.67%, 3.09% for the year, 4.57% for the last three years and 3.86% for 10 years. Private Equity Pool for the quarter -7.26%, 12.25% for three years, and 14.52% for five years. Loses in the Private Equity Pool are predicted to slowly catch up to the other funds. Real Estate Pool market value was \$353 million, last quarter -5.59% and -1.40% for the year. The BOI had issued a Request for Proposal (RFP) for Hedge Funds. Five firms have dropped out; the BOI has placed this on hold. A replacement has not been announced for President Paull as the PERB liaison to the BOI.

Verbal Update – Litigation – Melanie Symons, Scott Miller

Mr. Miller updated the Board on the VFCA case. The volunteer firefighters have appealed to District Court. Mr. Miller delivered the official record of the administrative proceedings to District Court. He has not received anything in response.

Next Board Meeting

March 12, 2009

Next Legislative Committee Meeting

February 17, 2009

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

Reconvene of open meeting

Motion: Ms. Dianna Porter moved to approve the minutes of the January 8, 2009 PERB Regular Closed Meeting.

Second: Mr. Loren Bough

Vote: 4/0, Ms. Halpin and Mr. Twardoski abstained, and Mr. Smith was absent.

Finalized Service Retirements Disability Benefit Payments - Kim Flatow

Motion: Ms. Dianna Porter moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum.

Second: Mr. Timm Twardoski

Vote: 7/0

ADJOURNMENT

There being no further business before the Board, Mr. John Nielsen moved to adjourn the meeting, Mr. Terry Smith seconded. All voted aye, next regular meeting will be Thursday, March 12, 2009. Meeting adjourned at approximately 2:00.

John Paull, President

ATTEST:

Roxanne M. Minnehan, Executive Director